

## Message Text

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ORIGIN EB-07

INFO OCT-01 TRSE-00 SS-15 L-03 SIG-01 AF-08 ARA-06 EA-07

EUR-12 NEA-10 CIAE-00 INR-07 NSAE-00 FRB-03 AID-05

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APPROVED BY EB:JLKATZ

EB/ORF/ICD:ACHEWITT

TREASURY:HGALE (SUBS)

E:CFRANK

L/EB:GROSEN (DRAFT)

S/S:RPERITO

----- 038864

R 170206Z SEP 76

FM SECSTATE WASHDC

TO ALL DIPLOMATIC POSTS

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E.O. 11652:N/A

TAGS: EFIN, UNCTAD, XX

SUBJECT: DESCRIPTION OF THE INTERNATIONAL RESOURCES BANK

REF: A) STATE 142614; B) STATE 150357;

C) STATE A-4492; D) STATE 226056

1. AT AN AUGUST 31 MEETING, THE EXECUTIVE COMMITTEE OF THE ECONOMIC POLICY BOARD (EPB) APPROVED A REVISED DESCRIPTION OF THE INTERNATIONAL RESOURCES BANK, AS WELL AS A SET OF QUESTIONS AND ANSWERS FOR USE IN EXPLAINING THE IRB PROPOSAL. THE Q'S AND A'S HAVE BEEN FORWARDED TO ADDRESSEES UNDER COVER OF CIRCULAR AIRGRAM STATE A-4492 (REF C). THE TEXT OF THE REVISED DESCRIPTIVE PAPER IS TRANSMITTED BELOW. PREVIOUS DESCRIPTIONS OF THE IRB  
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(REFS A AND B) ARE OBSOLETE.

2. POSTS ARE REQUESTED TO DRAW UPON THE MATERIAL CONTAINED IN THIS MESSAGE, AND THE Q'S AND A'S, IN

PRESENTATIONS TO HOST GOVERNMENTS ON THE IRB. FRENCH AND SPANISH TRANSLATIONS OF THE Q'S AND A'S AND OF THE IRB DESCRIPTIVE PAPER ARE BEING PREPARED AND WILL BE SENT AS SOON AS AVAILABLE.

3. BEGIN LIMITED OFFICIAL USE FYI: THE AUGUST 31 MEETING OF THE EPB DECIDED THAT TH- DESCRIPTION OF THE IRB WOULD NOT REPEAT NOT INCLUDE (A) GIVING THE IRB AUTHORITY TO ACT AS A RESIDUAL GUARANTOR AGAINST COMMERCIAL RISK FOR ANY OBLIGATIONS IN A TRILATERAL CONTRACT WHICH IS PART OF AN IRB-SPONSORED PROJECT; (B) GIVING THE IRB AUTHORITY TO RAISE FUNDS FOR SPECIFIC PROJECTS BY ISSUING BONDS IN ITS OWN NAME; AND (C) GIVING THE IRB AUTHORITY TO PROVIDE SUPPLEMENTAL BUFFER STOCK FINANCING. END LIMITED OFFICIAL USE FYI.

4. BEGIN TEXT: DESCRIPTION OF THE INTERNATIONAL RESOURCES BANK. INTRODUCTION. THE INTERNATIONAL RESOURCES BANK (IRB) DEALS WITH A MAJOR AREA OF INTERNATIONAL COMMODITY POLICY WHICH UP TO NOW HAS RECEIVED RELATIVELY LITTLE ATTENTION--THE PROBLEM OF ASSURING RATIONAL AND ADEQUATE INVESTMENT IN RESOURCE PRODUCTION IN THE DEVELOPING COUNTRIES. THE CENTRAL PURPOSE OF THE IRB IS TO CORRECT A SITUATION IN WHICH THE PATTERN OF FOREIGN PRIMARILY PRIVATE, RESOURCE INVESTMENT SEEMS TO HAVE BEEN DISTORTED BECAUSE OF A DETERIORATION IN THE CLIMATE FOR SUCH INVESTMENT, CAUSING COMMERCIALY VIABLE PROJECTS TO DEFERRED OR DROPPED IN FAVOR OF INVESTMENT IN LESS ECONOMICALLY-JUSTIFIED PROJECTS IN DEVELOPED COUNTRIES. SOME RESULTS OF THIS SITUATION ARE HIGHER PRODUCTION COSTS FOR THE MINERALS AFFECTED, LESS EFFICIENT PRODUCTION AND, EVENTUALLY, IMPAIRED ECONOMIC DEVELOPMENT IN DEVELOPING COUNTRIES HAVING NEEDED MINERAL RESOURCES.

THE PURPOSE OF THE IRB IS THUS TO FACILITATE INVESTMENT IN RESOURCE DEVELOPMENT IN THE DEVELOPING COUNTRIES. ITS EFFECT WOULD NOT NECESSARILY BE A NET INCREASE IN TOTAL LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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RESOURCE INVESTMENT, BUT SIMPLY TO PROMOTE CONDITIONS IN WHICH FOREIGN INVESTMENT WILL BE PLACED IN PROJECTS WHERE IT CAN BEST BE UTILIZED.

THE BASIC FUNCTIONS OF THE INTERNATIONAL RESOURCES BANK WOULD BE TO

- MOBILIZE AND ENCOURAGE THE FLOW OF FOREIGN CAPITAL, MANAGEMENT, AND TECHNOLOGY TO PROJECTS IN DEVELOPING COUNTRIES, WHEN PARTICIPANTS IN PROJECTS INVITE IRB ASSISTANCE;

- ENCOURAGE ADHERENCE TO STANDARDS OF EQUITY AND OBSERVANCE OF CONTRACTUAL UNDERTAKINGS BOTH BY HOST COUNTRIES AND BY PRIVATE COMPANIES PARTICIPATING IN RESOURCE PROJECTS; AND

- MINIMIZE POLITICAL OBSTACLES TO THE MOST RATIONAL INTERNATIONAL ALLOCATION OF CAPITAL INVESTMENT IN RESOURCES.

CENTRAL FUNCTION OF THE IRB. THE MOST IMPORTANT OF THE IRB'S FUNCTIONS IS TO GUARANTEE INVESTMENT AGAINST TYPES OF NON-COMMERCIAL RISK SPECIFIED IN INDIVIDUAL CONTRACTS WITHIN GENERAL GUIDELINES ESTABLISHED WHEN THE IRB IS CREATED. THE IRB WOULD FACILITATE FINANCING ON A PROJECT-BY-PROJECT BASIS BY ACTING AS GUARANTOR OF BONDS ISSUED BY THE PROJECT ENTITY. ITS GUARANTEE WOULD BE AGAINST DEFAULTS ON BONDS FOR NON-COMMERCIAL REASONS. THE IRB COULD ALSO PROVIDE GUARANTEES AGAINST NON-COMMERCIAL RISK FOR DIRECT EQUITY INVESTMENT IN THE PROJECT BY PARTICIPATING PRIVATE COMPANIES.

ASSUMPTION OF COMMERCIAL RISK WOULD CONTINUE TO BE THE RESPONSIBILITY OF THE PROJECT PARTICIPANTS.

THE IRB WOULD NOT:

- MAKE DIRECT LOANS TO RESOURCE PROJECTS FROM GENERAL FUNDS;

- GUARANTEE PROJECT BONDS, OR FOREIGN, PRIMARILY PRIVATE LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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VATE,EQUITY AGAINST ANY FORM OF COMMERCIAL RISK;

- GUARANTEE PRODUCTION LEVELS (THOUGH PRIVATE INVESTORS AND THE HOST COUNTRY PARTICIPATING IN THE PROJECT ENTITY COULD CONCLUDE CONTRACTS UNDER WHICH THEY WOULD RECEIVE GIVEN AMOUNTS OF MINERAL PRODUCT OVER A GIVEN PERIOD OF TIME);

- FACILITATE (THROUGH GUARANTEES OR OTHER MEANS) PROJECTS OUTSIDE THE EXTRACTIVE INDUSTRIES (MINERALS AND ENERGY PROJECTS);

- INTERVENE IN THE INVESTMENT DECISION-MAKING PROCESS BY INITIATING PROJECTS;

- ASSUME RESPONSIBILITY OR LIABILITY FOR THE COMMERCIAL VIABILITY OF THE PROJECT;

- PARTICIPATE IN RESOURCE PROJECTS IN DEVELOPED COUNTRIES

- GUARANTEE INVESTMENT IN PRE-PRODUCTION ACTIVITIES SUCH AS EXPLORATION (ALTHOUGH THE IRB MIGHT BE INVOLVED AT THE PRE-PRODUCTION STAGE BY OFFERING GUARANTEES FOR A PORTION OF THAT FINANCING OF PRODUCTION FACILITIES WHICH IS CONTINGENT UPON THE SUCCESS OF THE PRE-PRODUCTION ACTIVITIES I.E., ACTUAL DISCOVERY OF OIL, THE PROVING OUT OF HIGH QUALITY MINERAL ORES, OR CONFIRMATION OF TECHNICAL FEASIBILITY OF ORE PROCESSING TECHNIQUES);

- DUPLICATE FUNCTIONS OF THE WORLD BANK GROUP OR OTHER EXISTING INTERNATIONAL FINANCIAL INSTITUTIONS.

THE TRILATERAL AGREEMENT. NEW PROJECTS FACILITATED BY THE IRB IN DEVELOPING NATIONS WOULD BE THE SUBJECT OF TRILATERAL AGREEMENTS IN WHICH FOREIGN INVESTORS, THE HOST COUNTRY GOVERNMENT, AND THE IRB WOULD PARTICIPATE. THE TRILATERAL CONTRACT WOULD BE AN INSTRUMENT SETTING FORTH OBLIGATIONS AND UNDERTAKINGS BY BOTH PRIVATE PARTICIPANTS AND BY HOST COUNTRIES. THE TRILATERAL AGREEMENT WOULD GIVE PRIVATE INVESTORS ASSURANCES AGAINST NON-PERFORMANCE FOR POLITICAL REASONS. SIMILARLY, IT WOULD PROVIDE UNDER LIMITED OFFICIAL USE

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TAKINGS OR OBLIGATIONS TO BE MET BY PRIVATE SECTOR PARTICIPANTS. TRILATERAL AGREEMENTS WOULD BE NEGOTIATED FOR PARTICULAR PROJECTS AND WOULD REFLECT THE SPECIFIC ATTRIBUTES OF A PROJECT AND THE NEEDS AND CONCERNS OF ITS PARTICIPANTS. THE IRB WOULD ONLY PARTICIPATE IN CONTRACT FORMULATION TO THE EXTENT NECESSARY TO PROTECT ITS OWN ECONOMIC INTERESTS AND ASSURE ITS COMMITMENTS ARE MAINTAINABLE.

THE TRILATERAL AGREEMENT COULD INCLUDE PROVISIONS RELATING TO:

- PRE-PRODUCTION ACTIVITIES TO COMPLETE TECHNICAL AND COMMERCIAL EVALUATION OF A PROJECT;

- THE FINANCIAL BASIS OF THE PROJECT, INCLUDING THE EQUITY PARTICIPATION OF FOREIGN INVESTORS, THE CAPITAL CONTRIBUTION OF HOST GOVERNMENT, AND THE AMOUNT OF PROJECT BONDS;

- PRODUCTION SHARING;

- TRANSFER OF TECHNOLOGY AND TRAINING OF LOCAL PERSONNEL;

- PERFORMANCE AND PAYMENT UNDERTAKINGS BY BOTH THE HOST GOVERNMENT AND THE PRIVATE FIRMS IN THE INVESTING CONSORTIUM;

- DISPUTE SETTLEMENT PROVISIONS PROVIDING PROCEDURES FOR CONCILIATION OR ADJUDICATION OF DISPUTES ARISING UNDER TH TRILATERAL CONTRACTS.

IRB PARTICIPATION IN THE TRILATERAL AGREEMENT. THE IRB WOULD OVERSEE THE PERFORMANCE OF THE TERMS OF THE TRI-LATERAL CONTRACTUAL ARRANGEMENT AS A NEUTRAL "FACILITATOR AND INFORMAL MEDIATOR OF INVESTMENT DISPUTES.

THE IRB WOULD ALSO ACT AS GUARANTOR AGAINST NON-COMMER-CIAL RISK FOR SELECTED ASPECTS OF A TRILATERAL CONTRACTUAL ARRANGEMENT, SUCH AS:

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- ACTIONS BY THE HOST COUNTRY THAT INTERFERE WITH, PREVENT OR PROHIBIT PRIVATE INVESTORS FROM BENEFITING FROM SPECI-FIED COMMITMENTS UNDER THE CONTRACT, INCLUDING PROVISIONS REGARDING SUCH MATTERS AS IMPORT LICENSING AND EARNINGS REPATRIATION;

- FAILURE OF PRIVATE COMPANIES TO PERFORM ON CONTRACT PROVISIONS REQUIRING SPECIFIC AMOUNTS OF CAPITAL INVEST-MENT, TRAINING OF HOST COUNTRY NATIONALS, TRANSFER OF TECHNOLOGY, OR LOCAL PARTICIPATION IN MANAGEMENT.

THE IRB WOULD NOT:

- PROVIDE ANY GUARANTEES AGAINST DEFAULT OR NON-PERFORMANC AS STIPULATED IN THE CONTRACT, IF DEFAULT OR NON-PER-FORMANCE WERE DUE TO COMMERCIAL REASONS; OR

- DETERMINE THE STANDARDS OF PERFORMANCE TO BE AGREED TO BY THE HOST COUNTRY OR THE PRIVATE COMPANIES IN NEGOTIATIN THE CONTRACT.

FINANCING OF PRODUCTION PROJECTS. PROJECTS SUBJECT TO TRILATERAL AGREEMENTS COULD BE FINANCED IN A NUMBER OF WAYS, INCLUDING THE ISSUANCE OF PROJECT BONDS WHICH COULD BE DENOMINATED EITHER IN CASH OR IN COMMODITIES, OR IN A COMBINATION OF BOTH. THE PHYSICAL PRODUCTION UNDER MANY CIRCUMSTANCES COULD BE USED AS PARTIAL SECURITY FOR THE BONDS. THE PROJECT BONDS COULD BE SOLD TO OPERATING COMPANIES AND FINANCIAL INSTITUTIONS PARTICIPATING IN THE PROJECT, OR THEY COULD BE SOLD (OR RESOLD) TO PRIVATE INVESTORS THROUGH BOND MARKETS WITH THE IRB POSSIBLY ACTIN AS SALES AGENT.

FINANCING OF THE IRB. THE CAPITAL BASE OF THE IRB MIGHT CONSIST OF A PAID-IN LOSS RESERVE FUND OF \$1 BILLION, WHICH COULD BE SUPPLEMENTED BY ADDITIONAL AMOUNTS TO BE

SUBSCRIBED BY GOVERNMENTS AS CALLABLE CAPITAL RESERVES.  
CONSISTENT WITH PRACTICE IN THE WORLD BANK AND OTHER  
INSTITUTIONS, THE IRB COULD ISSUE GUARANTEES INITIALLY  
EQUAL TO THE TOTAL AMOUNT OF PAID-IN PLUS CALLABLE CAPITAL.

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THE TOTAL AMOUNT OF PAID-IN AND CALLABLE CAPITAL, AND THE  
RATIO OF PAID-IN TO CALLABLE CAPITAL, WILL HAVE TO BE FURTHER  
DISCUSSED. THE TOTAL SHOULD BE RELATED TO BOTH THE  
COSTS OF IRB ADMINISTRATION (WHICH COULD BE FINANCED FROM

THE EARNINGS OF THE LOSS RESERVE FUND), AND TO THE  
SPECIFIC NATURE OF THE IRB GUARANTEES.

INSTITUTIONAL ASPECTS OF THE IRB. BECAUSE OF CERTAIN  
SIMILARITIES AND COMPLEMENTARITIES BETWEEN ITS ACTIVITIES  
AND THE OPERATIONS OF MEMBERS OF THE WORLD BANK GROUP,  
IT WOULD BE SENSIBLE FOR THE IRB IN SOME WAY TO BE ASSOCIATED  
WITH THIS GROUP-- IN A MANNER CONSISTENT WITH THE  
GROUP'S ACTIVITIES. HABIB

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## Message Attributes

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